

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

June 30, 2001 and 2000 (As Restated)

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Balance Sheets	2
Statements of Operations	3
Statements of Changes in Fund Equity (Deficit)	4
Statements of Cash Flows	5
Notes to Financial Statements	6



**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Financial Statements

June 30, 2001 and 2000 (As Restated)

(With Independent Auditors' Report Thereon)



355 South Grand Avenue
Suite 2000
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Honorable Board of Supervisors
San Bernardino, California:

We have audited the accompanying balance sheets of Arrowhead Regional Medical Center (the Medical Center) of the County of San Bernardino (County) as of June 30, 2001 and 2000 (as restated) and the related statements of operations, changes in fund equity (deficit) and cash flows for the years ended June 30, 2001 and 2000 (as restated). These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements present only the Medical Center and are not intended to present fairly the financial position of the County and the results of its operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arrowhead Regional Medical Center as of June 30, 2001 and 2000 (as restated) and the results of its operations and its cash flows for the years ended June 30, 2001 and 2000 (as restated) in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

October 5, 2001



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Balance Sheets
June 30, 2001 and 2000

(In thousands)

Assets	2001	2000 (as restated)
Current assets:		
Cash	\$ 8,834	1,771
Assets whose use is limited	1,387	2,271
Patient accounts receivable, net of estimated uncollectibles of \$104,620 in 2001 and \$85,733 in 2000	26,082	25,707
Due from third-party payors	5,329	2,357
Receivables from federal and state programs	2,012	28,065
Due from County	308	8,639
Supplies inventories	1,564	1,379
Prepaid expenses and other assets	1,206	2,213
Total current assets	46,722	72,402
Assets whose use is limited	57,083	55,776
Property and equipment, net of accumulated depreciation of \$60,934 in 2001 and \$37,098 in 2000	541,420	563,818
Deferred issuance costs	11,605	12,234
Total assets	\$ 656,830	704,230
Liabilities and Fund Deficit		
Current liabilities:		
Capital lease obligations	656	656
Certificates of participation	19,895	19,005
Accounts payable	11,389	9,183
Accrued salaries and benefits	10,142	9,535
Other accrued liabilities	1,282	6,584
Interest payable	14,895	15,351
Arbitrage payable	1,150	986
Due to County	490	21,028
Total current liabilities	59,899	82,328
Capital lease obligations, less current installments	487	1,143
Certificates of participation, less current installments (net of deferred amount of refunding and discount)	619,514	636,867
Total liabilities	679,900	720,338
Fund deficit:		
Contributed capital	40,567	40,567
Fund deficit	(63,637)	(56,675)
Total fund deficit	(23,070)	(16,108)
Total liabilities and fund deficit	\$ 656,830	704,230

See accompanying notes to financial statements.

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Statements of Operations
Years ended June 30, 2001 and 2000

(In thousands)

	<u>2001</u>	<u>2000</u> (as restated)
Operating revenues:		
Net patient service revenue	\$ 279,920	231,972
Premium revenue – managed care	9,480	9,716
Tobacco tax	3,554	2,242
Mental health reimbursement	7	11
State realignment funding	31,072	37,658
State debt service funding	12,362	20,268
Other	3,748	2,894
Total operating revenues	<u>340,143</u>	<u>304,761</u>
Operating expenses:		
Salaries and benefits	103,173	96,067
Medi-Cal Matching Fund expense	77,909	68,831
Medical claims expense	1,110	1,898
Supplies	41,470	38,745
Professional services	32,792	31,726
Purchased services	18,641	16,274
Insurance	3,946	3,922
Provision for bad debts	22,583	13,343
Utilities	4,972	4,134
Depreciation and amortization	23,848	24,697
Rent	2,044	1,841
Interest on debt	35,971	37,105
Amortization related to debt	3,171	3,172
Other	3,800	4,552
Total operating expenses	<u>375,430</u>	<u>346,307</u>
Operating loss	<u>(35,287)</u>	<u>(41,546)</u>
Nonoperating income (expense):		
Interest income	4,031	3,610
Loss on disposal of fixed assets	(22)	—
Total nonoperating income, net	<u>4,009</u>	<u>3,610</u>
Loss before operating transfer	<u>(31,278)</u>	<u>(37,936)</u>
Operating transfer from the County	<u>24,316</u>	<u>4,521</u>
Net loss	<u>\$ (6,962)</u>	<u>(33,415)</u>

See accompanying notes to financial statements.

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Statements of Changes in Fund Equity (Deficit)

Years ended June 30, 2001 and 2000

(In thousands)

	<u>Contributed capital</u>	<u>Fund deficit</u>	<u>Total</u>
Balance, June 30, 1999, as restated (note 1(b))	\$ 40,567	(23,260)	17,307
Net loss, as restated	<u>—</u>	<u>(33,415)</u>	<u>(33,415)</u>
Balance, June 30, 2000, as restated	40,567	(56,675)	(16,108)
Net loss	<u>—</u>	<u>(6,962)</u>	<u>(6,962)</u>
Balance, June 30, 2001	<u>\$ 40,567</u>	<u>(63,637)</u>	<u>(23,070)</u>

See accompanying notes to financial statements.

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Statements of Cash Flows

Years ended June 30, 2001 and 2000

(In thousands)

	2001	2000 (as restated)
Cash flows from operating activities:		
Operating loss	\$ (35,287)	(41,546)
Interest paid considered capital financing activity	36,263	36,928
State debt service funding considered capital financing activity	(12,362)	(20,268)
Adjustment to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	23,848	24,697
Amortization related to debt	3,171	3,172
Provision for bad debts	22,583	13,343
Decrease (increase) in:		
Patient accounts receivable	(22,958)	(15,720)
Due from third-party payors	(2,972)	(2,039)
Receivables from federal and state programs	26,053	(4,825)
Due from County	8,331	(3,281)
Supplies inventories, prepaid expenses and other assets	822	32
Increase (decrease) in:		
Accounts payable	2,206	(4,171)
Accrued salaries and benefits	607	2,000
Other accrued liabilities	(5,302)	6,121
Interest and arbitrage payable	(292)	177
Due to County	(20,538)	(484)
Net cash provided by (used in) operating activities	<u>24,173</u>	<u>(5,864)</u>
Cash flows from noncapital financial activities – operating transfer from the County	<u>24,316</u>	<u>4,521</u>
Cash flows from capital and related financing activities:		
State debt service funding	12,362	20,268
Purchase of property and equipment	(1,472)	(4,854)
Principal payments on notes payable	—	(80)
Principal payments on capital leases	(656)	(707)
Principal payments on certificates of participation	(19,005)	(2,835)
Interest paid on notes and capital lease obligations	(106)	(148)
Interest paid on certificates of participation	(36,157)	(36,780)
Net cash used in capital and related financing activities	<u>(45,034)</u>	<u>(25,136)</u>
Cash flows from investing activities:		
Interest on investments	4,064	4,015
Purchase of investments	(456)	—
Proceeds from sales of investments	—	23,343
Net cash provided by investing activities	<u>3,608</u>	<u>27,358</u>
Increase in cash	<u>7,063</u>	<u>879</u>
Cash, beginning of year	<u>1,771</u>	<u>892</u>
Cash, end of year	<u>\$ 8,834</u>	<u>1,771</u>
Supplemental disclosure of noncash capital and related financing activities –		
loss on disposal of fixed assets	<u>\$ 22</u>	<u>—</u>

See accompanying notes to financial statements.

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Financial Statements

June 30, 2001 and 2000

(Dollar amounts in thousands)

(1) Summary of Significant Accounting Policies

(a) General

The County of San Bernardino (County) Arrowhead Regional Medical Center (Medical Center) project is classified as a level II trauma center with eight trauma bays and four additional "swing" trauma rooms that can be used during an emergency. In addition, the Medical Center provides 373 patient beds and has 24 private treatment rooms for diagnosis and treatment of urgent care patients. During fiscal year 2000, the Medical Center assumed the inpatient operations, consisting of 90 beds, from the previously separate Department of Behavioral Health.

The Medical Center is owned by the County, which is a legal subdivision of the state of California charged with governmental powers, and is reflected in the County's comprehensive annual financial report as an enterprise fund. The County's powers are exercised through a Board of Supervisors which, as the governing body of the County, is responsible for the legislative and executive control of the County.

These financial statements present only the Medical Center and are not intended to present fairly the financial position of the County, and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

(b) Restatement of Financial Information

During fiscal year 2001, the Medical Center determined that the estimated liability for self-insured claims is not a liability of the Medical Center but is an obligation of the County's Risk Management Fund. Accordingly, the Medical Center recorded an adjustment to restate its fund deficit as of June 30, 1999, the balance sheet at June 30, 2000 and the statement of operations for the year ended June 30, 2000. The effect of this adjustment is as follows:

June 30, 1999, fund deficit, as previously reported	\$ (26,836)
Adjustment to restate – elimination of the estimated liability for self-insured claims	<u>3,576</u>
June 30, 1999, fund deficit, as restated	<u>(23,260)</u>
Net loss for the year ended June 30, 2000, as previously reported	(33,869)
Adjustment to restate – elimination of the increase in estimated liability for self-insured claims	<u>454</u>
Net loss for the year ended June 30, 2000, as restated	<u>(33,415)</u>
June 30, 2000, fund deficit, as restated	\$ <u><u>(56,675)</u></u>

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Financial Statements

June 30, 2001 and 2000

(Dollar amounts in thousands)

(c) *Proprietary Fund Accounting*

The Medical Center uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred.

(d) *Accounting Standards*

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 24, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Medical Center has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. The Medical Center applies all applicable GASB pronouncements, as well as statements and interpretations of FASB, the Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

(e) *Income Taxes*

The Medical Center is owned and operated by the County and is exempt from federal and state income tax pursuant to IRC Section 115 and similar provisions of the California Franchise Tax Code and is also exempt from federal and state income tax filing requirements.

(f) *Charity Care*

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at an amount less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(g) *Net Patient Service Revenue*

Net patient service revenue is recorded at established rates less contractual allowances from third-party payors, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(h) *Premium Revenue – Managed Care*

The Medical Center has agreements with Inland Empire Health Plan (IEHP), Foundation Health and Aetna to provide medical services to subscribing participants. Under these agreements, the Medical Center receives monthly capitation payments based on the number of participants, regardless of services actually performed by the Medical Center. The Aetna agreement expired as of December 31, 2000.

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Financial Statements

June 30, 2001 and 2000

(Dollar amounts in thousands)

(i) Cash

The Medical Center maintains a certain portion of its cash on deposit with the County Treasurer.

(j) Assets Whose Use is Limited

Assets whose use is limited represent funds held by a trustee which are legally restricted for bond reserve accounts. Assets whose use is limited that are required for obligations classified as current liabilities are reported as current assets.

(k) Property and Equipment

Buildings, improvements and equipment costing over \$5,000 is capitalized at cost. Depreciation expense is provided using the straight-line method over the estimated useful lives of the respective classes of property. Equipment under capitalized leases is amortized on the straight-line method over the lesser of minimum lease terms or estimated useful lives. The estimated useful lives for computing depreciation expense are as follows:

Buildings	40 years
Improvements	3 to 25 years
Equipment	5 to 20 years

(l) Capitalized Interest

The Medical Center capitalizes net interest expense as a cost of property constructed. No amounts were capitalized for the years ended June 30, 2001 and 2000.

(m) Supplies Inventories

Supplies inventories are recorded at an amount which approximates the lower of average cost or market.

(n) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Financial Statements

June 30, 2001 and 2000

(Dollar amounts in thousands)

(2) Cash and Assets Whose Use is Limited

(a) Cash Deposits

At June 30, 2001 and 2000, the carrying amount of the Medical Center's cash deposits was \$22,780 and \$15,886, respectively, and the bank balance was \$16,827 and \$14,141, respectively. The entire bank balance was collateralized with securities held by the pledging financial institution's trust department at 110% of the deposits, in accordance with the State of California Government Code, in the Medical Center's name.

(b) Custodial Credit Risk and Fair Value of Investments

Debt proceeds are held by fiscal agent and have been invested in accordance with applicable debt agreements. Investments that are represented by specific identifiable investment securities are classified as to custodial credit risk categories. Category 1 includes investments that are insured or registered, or securities held by the Medical Center or its agent in the Medical Center's name. Category 2 includes investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Medical Center's name. Category 3 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the Medical Center's name. The Medical Center's investments at June 30, 2001 are summarized as follows:

Type	Credit risk category 1	Carrying amount at fair value
Categorized investments – U.S. government securities	\$ 21,474	21,474
Noncategorized investments – guaranteed investment contracts		22,248
Total investments		\$ 43,722

Medical Center's investments at June 30, 2000 are summarized as follows:

Type	Credit risk category 1	Carrying amount at fair value
Categorized investments – U.S. government securities	\$ 20,848	20,848
Noncategorized investments – guaranteed investment contracts		22,249
Total investments		\$ 43,097

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Financial Statements

June 30, 2001 and 2000

(Dollar amounts in thousands)

(3) State Realignment Funding

The state of California provides support to the Medical Center through a realignment fund. This realignment funding is provided from vehicle license fees and sales tax collected at the state level and allocated to California's counties. The realignment fund replaces state support previously given for specific purposes such as aid to local municipalities affected by decreased levels of tax support, aid to counties which provide services to medically indigent adults and aid for unreimbursed medical costs of legalized indigent aliens. The amount to be received by the counties is dependent upon the actual change in sales tax and vehicle license fees. The Medical Center's share of these revenues for the years ended June 30, 2001 and 2000 was \$31,072 and \$37,658, respectively. Because the revenues received are not based upon services provided to patients, they have been classified as other operating revenue in the accompanying statements of operations.

(4) Net Patient Service Revenue

The Medical Center provides services to eligible patients under Medi-Cal and Medicare programs. For the fiscal years ended June 30, 2001 and 2000, the Medi-Cal program represented approximately 49% and 48%, respectively, and the Medicare program represented approximately 10% and 11%, respectively, of the Medical Center's net patient service revenue. Medi-Cal inpatient services are reimbursed at contractually agreed-upon per diem rates and outpatient services are reimbursed under a schedule of maximum allowances. Medicare inpatient services are reimbursed based upon preestablished rates for diagnostic-related groups. Effective August 1, 2000, outpatient services went from a cost reimbursement payment methodology to prospectively determined payments per procedure under a system call Ambulatory Payment Classifications. A three-year transitional payment provision exists to limit the impact of this new payment system. Certain defined capital and medical education costs related to Medicare beneficiaries continue to be paid based on a cost-reimbursement methodology. The Medical Center is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the fiscal intermediary. The Medical Center's classification of patients under these programs and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the Medical Center. Reports on the results of such audits have been received through June 30, 1999 for Medicare and Medi-Cal. Adjustments as a result of such audits are recorded in the year the amount can be determined.

Senate Bill 855 – California's Senate Bill 855 (SB-855) was passed by the State Legislature and signed into law in 1991. The bill provides for supplemental Medi-Cal payments to hospitals which serve a disproportionately high percentage of Medi-Cal and other low-income patients. SB-855 provides additional funds through a reimbursement rate increase at the Medical Center for each Medi-Cal patient day provided, up to a maximum number of days. The Medical Center received \$92,495 and \$86,284 in SB-855 funds for the years ended June 30, 2001 and 2000, respectively. Because the revenues generated are based upon services provided to patients, they have been classified as net patient service revenue in the accompanying statements of operations. The program required the Medical Center to contribute matching funds of \$60,409 and \$58,831 for the years ended June 30, 2001 and 2000, respectively, which were

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Financial Statements

June 30, 2001 and 2000

(Dollar amounts in thousands)

recorded as operating expense in the accompanying statements of operations. The Medical Center recorded a receivable in the amount of \$6,952 at June 30, 2000, which was included in receivables from federal and state programs. The Medical Center had no related receivables at June 30, 2001.

Senate Bill 1255 – California's Senate Bill 1255 (SB-1255) was passed by the California Legislature and signed into law in 1989. This bill provides a funding mechanism to assist disproportionate share hospitals to fund budget shortfalls. SB-1255 allows disproportionate share hospitals to make voluntary donations to the state. The state then matches the money received with federal funds and redistributes the funds to the eligible hospitals in the subsequent fiscal year. The Medical Center received \$36,000 and \$24,000 in SB-1255 funds for the years ended June 30, 2001 and 2000, respectively. Because the revenues generated are based upon services provided to patients, they have been classified as net patient service revenue in the accompanying statements of operations. The Medical Center contributed matching funds of \$17,500 and \$10,000 for the years ended June 30, 2001 and 2000, respectively, which were recorded as operating expense in the accompanying statements of operations. The Medical Center had no related receivables at June 30, 2001 and 2000.

(5) Charity Care

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the fiscal years ended June 30:

	<u>2001</u>	<u>2000</u>
Charges foregone based on established rates	\$ <u>124,235</u>	<u>92,590</u>

(6) Contributed Capital

In 1991, the County Board of Supervisors approved the construction and financing plan of the Arrowhead Regional Medical Center project. The Inland Empire Public Facilities Corporation (Corporation) financed the project through the issuance of Certificates of Participation. The Corporation is included in the County's reporting entity as a blended component unit. In fiscal 1999, the Medical Center project assets and liabilities were contributed to the Medical Center.

In accordance with the master lease agreement, the County is to make aggregate lease payments each year as consideration for the use and occupancy of the Medical Center in an amount designated to be sufficient to pay the annual principal and interest due with respect to any construction debt outstanding. Senate Bill 1732 was passed by the California Legislature and signed into law in October 1998. The law permits qualifying medical centers to receive reimbursement, in addition to their Medi-Cal contract reimbursement, for a portion of the debt service of qualified projects. The Medical Center expects to receive

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Financial Statements

June 30, 2001 and 2000

(Dollar amounts in thousands)

proceeds equal to 50% of the total debt service costs under SB-1732. In September 2000, the Medical Center received \$20,268 in SB-1732 funds, which was included in receivables from federal and state programs at June 30, 2000. Additional amounts received by the Medical Center during fiscal year 2001 amounted to \$12,362. The Medical Center had no related receivables at June 30, 2001.

(7) Property and Equipment

A summary of property and equipment at June 30, 2001 and 2000 is as follows:

	<u>2001</u>	<u>2000</u>
Land and improvements	\$ 22,096	22,096
Buildings and improvements	490,481	488,790
Equipment	<u>89,777</u>	<u>90,030</u>
	602,354	600,916
Less accumulated depreciation	<u>(60,934)</u>	<u>(37,098)</u>
Property and equipment, net	<u>\$ 541,420</u>	<u>563,818</u>

(8) Transactions with the County

The Medical Center uses the treasury function of the County and at times maintains a cash overdraft with the County which can be repaid only through collection of receivables. The Medical Center had a cash overdraft of \$6,525 as of June 30, 2000, which was included in due to County in the accompanying balance sheets. The Medical Center did not have a cash overdraft as of June 30, 2001.

The Medical Center is allocated a portion of the County's overhead costs. Such expenses totaled \$1,743 and \$1,186 for the years ended June 30, 2001 and 2000, respectively, and are included as operating expense in the accompanying statements of operations.

The Medical Center also receives funds from the County of a fixed amount for care of the County's medically indigent patients.

(9) Lease Obligations

The Medical Center has various lease agreements with financial institutions and medical equipment manufacturers expiring at various dates through October 2003, providing for monthly payments at various interest rates. Equipment acquired under these agreements have been accounted for as capital leases.

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Financial Statements

June 30, 2001 and 2000

(Dollar amounts in thousands)

Capital leases for June 30 are summarized as follows:

	<u>2001</u>	<u>2000</u>
Total capital lease obligations	\$ 1,143	1,799
Less current portion	<u>(656)</u>	<u>(656)</u>
Capital lease obligation, excluding current portion	<u>\$ 487</u>	<u>1,143</u>

The schedule of future minimum lease payments on all capital leases is as follows:

Fiscal year ending June 30:

2002	\$ 539
2003	415
2004	<u>299</u>
Total minimum lease payments	1,253
Less amount representing interest	<u>(110)</u>
Present value of net minimum lease payments	1,143
Less current portion of capital lease obligations	<u>(656)</u>
Capital lease obligations, excluding current portion	<u>\$ 487</u>

The net book value of equipment under capitalized leases at June 30, 2001 and 2000 was \$1,085 and \$1,727 (net of accumulated amortization of \$3,185 and \$2,543), respectively.

The following is a schedule of future minimum rental payments required under operating leases entered into by the Medical Center that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2001:

Fiscal year ending June 30:

2002	\$ 984
2003	766
2004	<u>49</u>
Total minimum payments	<u>\$ 1,799</u>

Rent expense for operating leases for the years ended June 30, 2001 and 2000 totaled \$1,595 and \$1,425, respectively.

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Financial Statements

June 30, 2001 and 2000

(Dollar amounts in thousands)

(10) Certificates of Participation

The following is a summary of the outstanding certificates of participation for the fiscal year ended June 30:

	<u>2001</u>	<u>2000</u>
Description:		
Series 1994	\$ 206,700	210,770
Series 1995	143,610	147,565
Series 1996	65,070	65,070
Series 1997	110,115	121,095
Series 1998	<u>176,510</u>	<u>176,510</u>
Total certificates of participation	702,005	721,010
Less current portion	<u>(19,895)</u>	<u>(19,005)</u>
Long-term portion	682,110	702,005
Less:		
Deferred amount on refunding	(47,365)	(49,473)
Discount on debt	<u>(15,231)</u>	<u>(15,665)</u>
Net long-term portion	<u>\$ 619,514</u>	<u>636,867</u>

Certificates of Participation at June 30, 2001 consist of the following:

(a) Series 1994

The Medical Center Series 1994 Certificates of Participation were issued by the Corporation dated February 1, 1994, in the amount of \$283,245, with interest rates from 4.60% to 7.00%.

The Series 1994 Certificates maturing on August 1, 2005, August 1, 2006, August 1, 2019, August 1, 2024, August 1, 2026 and August 1, 2028 are subject to optional redemption in whole or in part on any date in such order of maturity as the Corporation shall determine and by lot within a maturity, on or after August 1, 2004, at the following premiums, plus interest accrued to the redemption date:

<u>Redemption dates</u>	<u>Premium</u>
August 1, 2004 to July 31, 2005	2%
August 1, 2005 to July 31, 2006	1
August 1, 2006 and thereafter	<u>—</u>

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Financial Statements

June 30, 2001 and 2000

(Dollar amounts in thousands)

The Series 1994 Certificates maturing on August 1, 2000 through August 1, 2004, August 1, 2009, August 1, 2017, August 1, 2020 and August 1, 2022 are not subject to optional redemption prior to maturity.

(b) Series 1995

The Series 1995 Certificates of Participation were issued by the Corporation dated June 1, 1995 in the amount of \$363,265, with interest rates from 4.80% to 7.00%.

The Series 1995 Certificates maturing on August 1, 2022 are subject to optional redemption in whole or in part on any date in such order of maturity as the Corporation shall determine and by lot within a maturity, on or after August 1, 2005, at the following premiums, plus interest accrued to the redemption date:

<u>Redemption dates</u>	<u>Premium</u>
August 1, 2005 to July 31, 2006	2%
August 1, 2006 to July 31, 2007	1
August 1, 2007 and thereafter	<u>—</u>

The Series 1995 Certificates maturing on and prior to August 1, 2010 and on August 1, 2017 are not subject to optional redemption prior to maturity.

(c) Series 1996

The Series 1996 Certificates of Participation were issued by the Corporation dated January 1, 1996, in the amount of \$65,070, with interest rates from 5% to 5.25%.

The Series 1996 Certificates are subject to optional redemption in whole or in part on any date in such order of maturity as the Corporation shall determine and by lot within a maturity, on or after August 1, 2006, at the following premiums, plus interest accrued to the redemption date:

<u>Redemption dates</u>	<u>Premium</u>
August 1, 2006 to July 31, 2007	2%
August 1, 2007 to July 31, 2008	1
August 1, 2008 and thereafter	<u>—</u>

(d) Series 1997

The Series 1997 Certificates of Participation were issued by the Corporation dated September 1, 1997, in the amount of \$121,095, with interest rates from 4.30% to 5.50%.

The Series 1997 Certificates are not subject to optional redemption prior to maturity.

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Financial Statements

June 30, 2001 and 2000

(Dollar amounts in thousands)

(e) Series 1998

The Series 1998 Certificates of Participation were issued by the Corporation dated October 22, 1998, in the amount of \$176,510. Interest with respect to the Certificates is payable at an adjustable weekly interest rate which may be converted to a fixed interest rate at the option of the Corporation. The Corporation entered into an interest rate swap agreement with Merrill Lynch Capital Services, Inc. which provides that the Corporation will pay a fixed rate of 4.1895% to the Swap Provider on a notional amount equal to the principal amount of the Series 1998 Certificates and the Swap Provider will pay interest to the Corporation at a variable rate of interest on such notional amount, such payments to be made on a net basis.

The Series 1998 Certificates are subject to optional redemption prior to their maturity at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption as follows:

- (a) Prior to the Conversion Date, fixed interest rate, at a redemption price equal to the principal amount called for redemption without premium.
- (b) After the Conversion Date, at a redemption price of 100% of the principal amount plus a premium to be determined on or prior to the Conversion Date.

The proceeds from the Series 1998 Certificates of Participation (Certificates) were used for the advance refunding for \$160,700 of previously issued Series 1995 Certificates of Participation. Government securities were purchased with the proceeds and those securities were deposited in an irrevocable trust with an escrow agent, to provide debt service until the remaining outstanding Certificates mature. The advance-refunding method met the requirements of an in-substance defeasance and the remaining outstanding Certificates were removed as a liability of the Medical Center. As of June 30, 2001, the amount of debt outstanding, but removed from the Medical Center's accounting records, amounted to \$215,700.

As a result of the advance refunding, the Medical Center reduced its debt requirements by \$23,727 due to a longer period of repayments. This resulted in an economic gain (difference between the present value of debt service payments in the old and new debt) of \$15,866.

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Financial Statements

June 30, 2001 and 2000

(Dollar amounts in thousands)

The annual requirements to amortize the Certificates of Participation outstanding at June 30, 2001, including interest payments of \$546,234 over the remaining life of the debt, are summarized as follows:

Fiscal year	Series 1994	Series 1995	Series 1996	Series 1997	Series 1998
2001-02	\$ 13,846	14,113	3,261	16,808	7,395
2002-03	15,405	12,554	3,261	16,812	7,395
2003-04	15,307	12,656	3,261	16,808	7,395
2004-05	14,433	13,529	3,261	16,809	7,395
2005-06	14,716	13,243	3,261	16,810	7,395
Thereafter	334,844	175,150	132,158	50,436	278,522
Subtotal	408,551	241,245	148,463	134,483	315,497
Less interest	(201,851)	(97,635)	(83,393)	(24,368)	(138,987)
Principal balance	\$ 206,700	143,610	65,070	110,115	176,510

(11) Arbitrage Payable

Interest earned in excess of interest expense related to tax-exempt debt issued for public purposes must be remitted to the federal government following the end of each period of five bond years of the Certificates of Participation. The amount of excess investment earnings calculated as of June 30, 2001 and 2000 totals \$1,150 and \$986, respectively.

(12) Retirement Plan

Employees of the Medical Center participate in a cost-sharing multiple-employer defined benefit retirement plan (the Plan) administered by the San Bernardino County Employee's Retirement Association (SBCERA). The Plan is governed by the San Bernardino Board of Retirement under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death and disability benefits to members. Employees become eligible for membership on their first day of regular employment and become fully vested after five years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 195 North Arrowhead Avenue, San Bernardino, California 92415-0014.

Participating members are required by statute Sections 31621, 31621.2 and 31639.25 of the California Code to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% to 10.58% of their annual covered salary of which the County pays approximately 7%. Employers are required to contribute 6.67% to 14.46% of the current year covered payroll. The Medical Center pension cost for the fiscal years ended June 30, 2001 and 2000 was approximately \$6,644 and \$5,105, respectively. Employee contribution rates are established and may be amended pursuant to Articles 6.1 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

**COUNTY OF SAN BERNARDINO
ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Financial Statements

June 30, 2001 and 2000

(Dollar amounts in thousands)

The following table shows the County's required contributions and the percentage contributed for the current year and each of the two preceding years:

	<u>Annual pension cost</u>	<u>Percentage contributed</u>
Year ended June 30:		
1999	\$ 48,667	100%
2000	42,673	100
2001	<u>58,572</u>	<u>100</u>

(13) Self-Insurance

The Medical Center participates in the County self-insurance programs for general liability, unemployment insurance, employee dental insurance, medical malpractice and worker's compensation claim-related risks.

The activities related to the self-insurance programs are accounted for in the County's Risk Management Funds, separate internal service funds of the County, except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund of the County. The Medical Center participates in these plans through a premium based arrangement that consists of annual amounts not subject to adjustment for adverse claims. Premium payments of \$2,643 were made for the years ended June 30, 2001 and 2000.

The County's general-purpose financial statements, containing all applicable disclosures required by GASB 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, can be obtained from the County Auditor-Controller's office.

(14) Litigation and Other Claims

The Medical Center is defendant in various lawsuits and other claims arising in the ordinary course of its operations. In the opinion of County Counsel and County officials, the ultimate outcome of these matters will have no significant effect on the financial condition or operations of the Medical Center.